

OFFICE OF AUDITS AND COMPLIANCE

1515 S Street, Sacramento
P.O. Box 942883
Sacramento, CA 94283-0001



Ken Riedle, Executive Director
Cache Creek Lodge, Inc.
435 Aspen St.
Woodland, CA 95695

Dear Mr. Riedle:

The California Department of Corrections and Rehabilitation's (CDCR) Audits Branch completed a fiscal contract compliance audit of contract number P05.0025, between Cache Creek Lodge, Inc. and the CDCR. The audit covered the contract period of July 1, 2006 through May 31, 2007. The Audits Branch conducted the audit fieldwork from June 25, 2005 through February 26, 2008.

Enclosed is a copy of the final report. This report includes your response received on July 13, 2007, and our comments to your response. If you wish to appeal the final audit report to the Administrative Review Committee, please submit your request in writing within 30 days from the date of this letter.

If you have any questions or need additional information regarding the contents of this report, please contact Tim Adams, Supervising Management Auditor, Audits Branch, at (916) 255 - 2701.

RICHARD C. KRUPP, Ph.D.
Assistant Secretary
Office of Audits and Compliance

Enclosure

cc: Tim Adams, Audits Branch
Thomas Hoffman, Division of Adult Parole Operations

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CONTRACT COMPLIANCE AUDIT
CACHE CREEK LODGE, INC.



FINAL REPORT

Prepared by:

California Department of Corrections and Rehabilitation
Audits Branch

March 2008

CACHE CREEK LODGE, INC.

CONTRACT NUMBER P05.0025

Audits Branch
Timothy Adams, Supervising Management Auditor
Francis Cailles, Staff Management Auditor
Rowena Dorsey, Associate Management Auditor
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TABLE OF CONTENTS

	<u>PAGE</u>
AUDITOR'S REPORT	
EXECUTIVE SUMMARY	1
BACKGROUND	4
FINDINGS AND RECOMMENDATIONS	
FINDING 1: Unallowable Salaries.....	5
FINDING 2: Unallowable Fringe Benefits	8
FINDING 3: Overpaid Operating Expenses	9
FINDING 4: Indirect Cost Overpayment	13
FINDING 5: Internal Control Weaknesses	15
SCHEDULE 1	18
SCHEDULE 1A.....	20
GLOSSARY	21
AUDITEE'S RESPONSE	EXHIBIT 1

OFFICE OF AUDITS AND COMPLIANCE

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AUDITOR'S REPORT

Ken Riedle, Executive Director
Cache Creek Lodge, Inc.
435 Aspen Street
Woodland, CA 95695

Dear Mr. Riedle:

The California Department of Corrections and Rehabilitation's (CDCR), Office of Audits and Compliance, Audits Branch, completed a fiscal contract compliance audit of contract number P05.0025 between Cache Creek Lodge, Inc. (Cache Creek), and CDCR. Under the terms of the agreement, the contractor agreed to operate a Residential Multi-Service Center (RMSC) that provides homeless and at risk parolees with room and board, substance abuse treatment, relapse prevention, literacy training, anger management, employment development, and counseling. The costs for these services were not to exceed the contract amount listed below.

<u>Contract Number</u>	<u>Contract Term</u>	<u>Contract Amount</u>
P05.0025	January 1, 2006-June 30, 2009	\$1,911,706

The Audits Branch conducted the audit in accordance with Generally Accepted Governmental Auditing Standards, including tests of controls and other such auditing procedures considered necessary under the circumstances.

The scope of the audit was limited to financial and selected compliance activities for July 1, 2006 through May 31, 2007.

The audit fieldwork was conducted from June 25, 2007 through February 26, 2008.

The specific objectives of the audit were to determine whether:

- Expenses claimed were for actual program costs, supported by appropriate source documentation, and consistent with the CDCR's Line Item Budget Guide's (LIBG) cost principles.
- Cache Creek complied with the terms and conditions of contract number P05.0025.

The procedures performed in the audit included:

- A review of the fiscal contract provisions and related accounting and program records, as well as, pertinent laws, rules, and regulations.
- Performance of tests to provide reasonable assurance that Cache Creek complied with the fiscal contract provisions and tests of payment propriety as deemed necessary by the Audits Branch.

The Audits Branch identified five findings. The first four are monetary findings consisting of unallowable salaries, unallowable fringe benefits, overpaid operating expenses and overpaid indirect costs. The Audits Branch recommends a total cost recovery of \$96,396. The fifth finding is about internal control weaknesses. Because the audit was limited to selected test periods and fiscal transactions, the Audits Branch does not express an opinion on the contractor's internal controls or contract compliance as a whole.

RICHARD C. KRUPP, Ph.D.
Assistant Secretary
Office of Audits and Compliance

February 26, 2008 (last date of audit fieldwork)

EXECUTIVE SUMMARY

The CDCR contracted with Cache Creek to operate a RMSC in Woodland, California. A RMSC is a CDCR program that provides homeless male and female parolees with shelter, sustenance, and life skills to transition them back into productive members of society. Under contract number P05.0025, CDCR contracted with Cache Creek for \$1,911,706 for the term of January 1, 2006 through June 30, 2009.

The Audits Branch audited Cache Creek's RMSC transactions for the period of July 1, 2006 through May 31, 2007. During this 11-month audit period, CDCR paid Cache Creek \$471,182 for 7,704 bed days, which translates to \$61.16 per bed day.

The audit identified five findings. The first four are monetary findings consisting of unallowable salaries, unallowable fringe benefits, overpaid operating expenses, and overpaid indirect costs. The Audits Branch recommends a total cost recovery of \$96,396. The fifth finding is non-monetary dealing with internal control weaknesses.

In the preliminary audit report dated June 11, 2008, the Audits Branch recommended a cost recovery of \$120,800. However, in their response to the preliminary audit report, Cache Creek included supplemental documents to support the salaries and benefits of the Facility Manager that the Audits Branch excluded from the allowable personnel costs in the preliminary report. Upon review of the supplemental documents, the Audits Branch allowed additional costs of \$14,327 in salaries; \$3,868 in fringe benefits, and \$6,209 in indirect costs for a combined total of \$24,404. The table below summarizes the questioned costs from the preliminary audit report, the adjustments granted to Cache Creek, and the adjusted unallowable costs.

Summary of Unallowable Costs

	FINDING	PRELIM	ADJUSTMENTS	ADJ TOTAL
1	Unallowable Salaries	\$ 55,948	(\$14,327)	\$41,621
2	Unallowable Fringe Benefits	24,996	(3,868)	21,128
3	Operating Expenses Exceeded Reported Costs	14,783		14,783
4	Indirect Cost Overpayment	25,073	(6,209)	18,864
5	Poor Internal Control	0		0
	TOTAL QUESTIONED COSTS	\$120,800	(\$24,404)	\$96,396

The Findings and Recommendations section of the audit report provides detailed explanations of the findings.

SUMMARY OF FINDINGS

FINDING 1: Unallowable Salaries

The CDCR overpaid Cache Creek a total of \$55,948 in salaries. The overpayment was due to salaries exceeding the contract budget, unallowable expenses, such as overtime and Christmas bonuses, and incorrect allocation of salaries to Cache Creek's other programs.

Cache Creek's response: Cache Creek requested the Audits Branch to include the Facility Manager's salary for September 2006 through June 2007, totaling \$14,003. The salary was excluded from the calculations of actual personnel costs because it was posted into the wrong account. In addition to the \$14,003, Cache Creek also requested to include the Facility Manager's fringe benefits totaling \$3,781, which is 27 percent of \$14,003.

Audits Branch's response: The Audits Branch reviewed the documents and allowed an additional \$14,327 of the Facility Manager's salary, reducing the Facility Manager's unallowable salary to \$2,167 (16,494 previous – 14,327). The fringe benefits inclusion is discussed in Finding 2.

FINDING 2: Unallowable Fringe Benefits

The CDCR overpaid Cache Creek \$24,996 in fringe benefits. The overpayment resulted from unsupported billings, charges of medical benefits to individuals that were no longer employees of Cache Creek, and inappropriate allocation of fringe benefits related to Cache Creek's other programs.

Cache Creek's response: Cache Creek requested the Audits Branch to include \$6,398 of medical insurance costs and \$1,319 of related indirect costs for a combined total of \$7,717. Cache Creek claimed that these are missing invoices that couldn't be located during audit fieldwork.

Audits Branch's response: During fieldwork, the Audits Branch credited Cache Creek \$7,271 for medical insurance, which is \$873 more than Cache Creek's request for inclusion of \$6,398. Therefore, the Audits Branch determined that Cache Creek's request to include the additional medical insurance is not applicable. However, the Audits Branch credited Cache Creek \$3,868 in fringe benefits associated with the additional Facility Manager's salaries, discussed in Finding 1. The inclusion of \$3,868 reduced the unallowable fringe benefits finding to \$21,128 (24,996 previous – 3,868).

FINDING 3: Overpaid Operating Expenses

The Audits Branch recalculated contract number P05.0025's cost allocation rates and identified five Cache Creek accounts with unallowable expenses, and seven line items that exceeded the allocated costs. The Audits Branch subtracted the questioned costs from the Utilities, Supplies/Expendable Equipment, Household Supplies, Food, and Aftercare line items and then allocated expenses by the actual bed days allocation rates of 65.86 percent and by the capacity rate of 64.10 percent (see Schedule 1). The result is an overpayment of \$14,783.

FINDING 4: Indirect Cost Overpayment

Cache Creek overcharged CDCR \$25,073 for indirect costs. Cache Creek used an indirect cost rate of 22 percent, which is higher than the audited rate of 20.62 percent.

Cache Creek's response: Cache Creek's response to the preliminary audit report did not include a request for indirect costs associated with the requested Facility Manager's salaries and fringe benefits.

Audits Branch's response: Although Cache Creek's response to the report did not include the indirect costs associated with the Facility Manager's salaries and benefits, the Audits Branch credited Cache Creek with \$6,209 indirect costs associated with the Facility Manager's salaries (Finding 1) and benefits (Finding 2). The \$6,209 reduced the indirect costs overpayment to \$18,864 (25,073 previous – 6,209).

FINDING 5: Internal Control Weaknesses

The Audits Branch identified eight internal control weaknesses that require Cache Creek's immediate attention.

BACKGROUND

Cache Creek agreed to provide a 25-bed RMSC and all service components in accordance with contract number P05.0025. The RMSC provides housing, substance abuse services and independent living skills to at-risk parolees in order to transition them back into the community. The facility is located at 435 Aspen Street, Woodland, California 95695.

Cache Creek is a co-ed facility licensed by the California Department of Alcohol and Drug Programs. Parolee participants are monitored on a 24/7 basis and the contractor's security system is designed to prevent illicit drug use and unauthorized entry or exit from the facility. Participants can stay up to 180 days in the program, which includes four phases of treatment, beginning from intake through aftercare. With prior written approval, some participants may stay up to one year.

FINDINGS AND RECOMMENDATIONS

FINDING 1: Unallowable Salaries

The CDCR overpaid Cache Creek \$55,948 for salaries. Cache Creek billed CDCR \$193,964, but the Audits Branch determined that the amount allocable to the RMSC program should only be \$138,016.

To calculate the correct amount allocable to the RMSC program, the Audits Branch deducted unallowable amounts from the actual salaries reported in Cache Creek's financial records. The adjustments are detailed in the table below. For example, Cache Creek paid the Counseling Supervisor \$40,475, which includes a base pay of \$40,069, plus a \$406 bonus. The base pay is \$2,526 more than the contract's maximum allowable salary of \$37,543 (\$3,413/month x 11 months). In addition, the \$406 bonus is unallowable. Therefore, the Audits Branch deducted \$2,932 (\$2,526 plus \$406) from the Counseling Supervisor's actual salary.

The Audits Branch also deducted overtime pay, budget fillers, and salaries for other RMSC employees because these items are not included in the line item budget. Items not listed in the line item budget are unallowable.

ADJUSTMENTS

Position	Actual Salary	ADJUSTMENTS				Adjusted Salary
		Amount in Excess of Contract Salary	Overtime Pay	Christmas Bonus	Total Adjustments	
Facility Manager	\$ 4,583	\$ 0	\$ 0	\$ 0	\$ 0	\$ 4,583
Counseling Supervisor	40,475	2,526	0	406	2,932	37,543
Counselors	63,927	2,386	66	503	2,955	60,972
Monitors	52,646	1	30	219	250	52,396
Cook	22,582	5,148	0	109	5,257	17,325
Temporary Help	50,544	5,383	1,496	164	7,043	43,501
*Budget Fillers	19,075	18,540	426	109	19,075	0
**Other RMSC Employees	14,598	14,434	109	55	14,598	0
***Unsupported GL Entries	12,058	10,683	0	1,375	12,058	0
TOTAL	\$280,488	\$59,101	\$2,127	\$2,940	\$64,168	\$216,320

*Budget Fillers are RMSC employees whose wages are scattered to one or more positions to meet the position's salary budget limit.

Other RMSC employees are employees who were **not in the RMSC Payroll for the pay period.

***The Cache Creek's Account Quick Report documenting salaries and wages had entries during the months of September 2006 through March 2007 that Cache Creek was unable to identify and justify; therefore, were totally disallowed.

The Audits Branch determined that Cache Creek provides similar services to non-RMSC clients, and that the RMSC contract beds account for 64.1 percent of the facility's residential program's bed days. Thus, the Audits Branch allocated 64.1 percent of the adjusted salaries to the RMSC contract, except for the Facility Manager's salary. The RMSC contract allows Cache Creek to charge only up to 50 percent of the Facility Manager's allowable salary.

OVERPAYMENT CALCULATION

Position	Adjusted Salary	Percent Allocable to the RMSC Contract	Amount Allocable to the RMSC Contract	Amount Paid by CDCR	Overpayment
Facility Manager	\$ 4,583	50.00%	\$ 2,292	\$ 18,786	\$16,494
Counseling Supervisor	37,543	64.10%	24,065	31,156	7,091
Counselors	60,972	64.10%	39,083	49,772	10,689
Monitors	52,396	64.10%	33,587	43,951	10,364
Cook	17,325	64.10%	11,105	14,377	3,272
Temporary Help	43,501	64.10%	27,884	35,922	8,038
*Budget Fillers	0	n/a	n/a	n/a	n/a
**Other RMSC Employees	0	n/a	n/a	n/a	n/a
***Unsupported GL Entries	0	n/a	n/a	n/a	n/a
TOTAL	\$216,320	n/a	\$138,016	\$193,964	\$55,948

Based on the Audits Branch's calculations, the CDCR overpaid Cache Creek \$55,948.

CRITERIA:

LIBG (October 2002), page 3, Personnel Costs, states: "All reported salary costs shall be based on actual expenditures."

LIBG (October 2002), page 2, Actual and Allowable Costs, states: "Allowable costs for a contract shall be limited to those expenditures which are: (1) in conformance with the approved contract budget and have specific prior approval when required; and (2) for goods and services necessary to the project's operation at the time the costs are incurred. Any expenses not meeting these criteria may be disallowed."

LIBG (October 2002), page 11, Fiscal Audit, states, "Audits and reviews may be conducted at any time during the performance of the contract or during the three years following the completion of the contracting period. Actual costs incurred by the Contractor for expenses should be substantiated with appropriate source documentation. If expenditures are found to be unallowable, the Contractor's reimbursements will be recalculated and adjusted accordingly."

LIBG (October 2002), page 10, Unallowable Costs. This section mentions that costs associated with bonuses and/or other gifts are unallowable.

RECOMMENDATIONS:

1. Reimburse CDCR \$55,948 for overpaid salaries.
2. Ensure that employees' salaries do not exceed the budget limit.
3. If overtime is a necessity, amend the contract to include a line item for overtime.
4. Allocate costs appropriately to the RMSC program.
5. Entries to the salaries and wages account should have supporting documentation.

Cache Creek's response: Cache Creek requested a reduction to the total audit finding, which includes \$18,587 of the Facility Manager's salary. Cache Creek indicated that the Facility Manager's salary for September 2006 through March 2007 was not included in Cache Creek's Profit and Loss Statements. The salaries were incorrectly posted to the General/Administrative account rather than to the Residential account, which gave the appearance that the Facility Manager was not paid during these periods. The Residential account has been corrected to show the Facility Manager's salary for September 2006 through March 2007; therefore, Cache Creek is requesting the Audits Branch to include \$18,587 of personnel costs for the period indicated above. Refer to Exhibit 1, Page 2, for Cache Creek's calculations of the Facility Manager's salaries requested for inclusion.

Audits Branch's response: Upon review of the additional documents provided by Cache Creek, the Audits Branch determined that the Facility Manager's allowable salary for the period of July 2006 through May 2007 was \$16,619. As shown in the table below, Cache Creek provided documents to support the \$18,587 they requested, but the Audits Branch did not include the \$1,968 for June 2007 because the audit period was through May 2007 only. In addition, the Audits Branch allowed only 50 percent of the Facility Manager's actual salary because the contract limits the Facility Manager to a 50 percent full time equivalent position.

Facility Manager Allowable Salary for the Audit Period					
Month	Actual Salary, based on additional documents from Cache Creek	Amount Requested by Cache Creek (50% of Actual Salary)	Revised Amount Allowed by the Audits Branch	Amount Allowed by the Audits Branch in the Preliminary Report	Adjustments
September 2006	\$ 1840	\$ 920	\$ 920	\$ 0	\$ 920
October 2006	3907	1953	1953	0	1953
November 2006	3907	1953	1953	0	1953
December 2006	3907	1953	1953	0	1953
January 2007	3935	1967	1967	0	1967
February 2007	3935	1967	1967	0	1967
March 2007	3935	1967	1967	0	1967
April 2007	3935	1967	1967	1145	821
May 2007	3935	1967	1967	1145	821
June 2007	3935	1967	0	0	0
TOTAL	\$37173	\$18587	\$16619	\$2292	\$14327

The Audits Branch allowed only \$2,292 for the Facility Manager's salary in the preliminary report. Since the revised allowable salary is now \$16,619, the Audits Branch reduced the questioned amount for Finding 1 by \$14,327.

The revised questioned amount for Finding 1 is now \$41,621 (\$55,948 in the preliminary report minus \$14,327 for adjustments).

FINDING 2: Unallowable Fringe Benefits

The CDCR overpaid Cache Creek \$24,996 for fringe benefits. CDCR paid Cache Creek \$62,069, but the amount allocable to the RMSC contract was only \$37,073.

Fringe Benefits	Reported Benefits Costs	Adjustments	Adjusted Benefits Costs	Allocation to RMSC @ 64.10%	Amount Paid by CDCR	Over Payment
Medical	\$24,901	\$ 6,159	\$18,742	\$12,014		
Workers Comp.	19,019	4,229	14,790	9,480		
Payroll Taxes	29,158	4,854	24,304	15,579		
TOTAL	\$73,078	\$15,242	\$57,836	\$37,073	\$62,069	\$24,996

According to Cache Creek's financial records, the total reported costs for Fringe Benefits was \$73,078. The Audits Branch deducted \$15,242 from the reported costs for (a) unsupported expenses, (b) charges for individuals who no longer worked for Cache Creek, and (c) benefits related to the staff salaries disallowed in Finding 1. The adjusted benefits costs totaled \$57,836.

As discussed in Finding 1, the RMSC program represents 64.1 percent of the bed-days in Cache Creek's Residential Facility. Therefore, only 64.1 percent, or \$37,073 of the adjusted benefits costs are allocable to the RMSC contract.

According to the Audits Branch's computations, the CDCR overpaid Cache Creek \$24,996.

CRITERIA:

LIBG (October 2002), page 2, Actual and Allowable Costs, states: "Actual costs incurred by the Contractor, which are allowable costs shall be substantiated with appropriate source documentation and appropriate receipts, such as invoices and receipts for any cost contained in the budget proposal."

LIBG (October 2002), page 3, Staff Benefits, states: "Actual costs for staff benefits will be provided based on a percentage of total staff salaries. A CDC audit will be performed on actual costs."

RECOMMENDATION:

1. Reimburse CDCR \$24,996 for overpaid fringe benefits.
2. Ensure that payments of fringe benefits are to bona fide employees only.
3. Ensure that all reported costs are supported by adequate documentation.

Cache Creek's response: Cache Creek requested the Audits Branch to include \$6,398 of medical insurance costs and \$1,319 of related indirect costs for a total of \$7,717 in fringe benefits, for the period of July 2006 through April 2007. Cache Creek stated that the invoices were missing from their files during audit fieldwork and were not included in the audited totals for employee benefits. Cache Creek provided the missing invoices as attachments to the preliminary audit report's response. (Refer to Exhibit 1, Pages 3 - 19.)

Audits Branch's response: The Audits Branch's review of the additional information revealed that the Audits Branch already credited Cache Creek \$7,271 in medical insurance costs during fieldwork, which is \$873 more than Cache Creek's request for inclusion of \$6,398. Therefore, the Audits Branch determined that Cache Creek's request to include the medical insurance costs is not applicable.

However, the Audits Branch credited Cache Creek \$3,868 (14,327 additional allowable salary x 27 percent benefits rate) in fringe benefits associated with the Facility Manager's additional salaries, discussed in Finding 1. The \$3,868 added benefits reduced the fringe benefits overpayment from \$24,996 to \$21,128.

FINDING 3: Overpaid Operating Expenses

CDCR overpaid Cache Creek \$14,783 for operating expenses.

Item	Amount Paid by CDCR	Allowable Amount	Overpayment
Facility Cost	\$ 12,293	\$ 13,444	(\$ 1,151)
Aftercare	2,220	0	2,220
Non-Expendable Equipment	18,864	4,770	14,094
All Other Operating Costs	96,806	97,186	(380)
TOTAL	\$130,183	\$115,400	\$14,783

FACILITY COST

CDCR owes Cache Creek \$1,151 for Facility Cost.

Cache Creek is allowed to claim depreciation and mortgage interest for their facility costs, as they are still making monthly mortgage payments on the property.

Depreciation

According to Cache Creek's fiscal year (FY) 2004/05 Tax Asset Detail report, the facility's acquisition cost (excluding land) was \$432,000. The Contractor spent additional money to make the facility usable for the CDCR program. The LIBG does not allow capital improvement costs; however, the Audits Branch allowed documented improvement costs totaling \$135,209 that were necessary to make the facility usable for the CDCR contract. After adding the facility improvement costs, the total depreciable value of the facility is \$567,209 (\$432,000 + \$135,209) and the annual depreciation is \$18,907 (\$567,209 ÷ 30 years). This depreciation amount is for the entire facility, which includes all the buildings used for the Residential Program, Sober Living, Outpatient and Administration. The depreciation allocable to the RMSC contract is \$5,488, which was computed as follows:

Depreciation Allocable to RMSC

Annual Depreciation for all buildings:	\$18,907
Multiplied By: (Residential Building's Square Feet / All Buildings' Square Feet)	<u>45.28%</u>
Equals Depreciation for the Residential Building	\$8,561
Multiplied By: (RMSC Beds / Total of RMSC and non-RMSC Beds in Residential Bldg.)	<u>64.10%</u>
Equals: Depreciation Allocable to the RMSC contract	\$5,488

Mortgage Interest

In 2004, Cache Creek refinanced the property to take advantage of lower interest rates. The total refinanced amount was \$693,750, which consists of \$625,222 for the original mortgage principal balance and an equity loan of \$68,528. The LIBG only allows mortgage interest based on the original purchase value of the property. To comply with the LIBG, the Audits Branch computed the allowable mortgage interest based upon the original loan's remaining principal balance. The allowable mortgage interest for the audit period is \$35,479. This interest expense is for the entire facility. Using the same method to allocate depreciation costs, the Audits Branch determined that mortgage interest allocable to the RMSC program is \$10,298.

Mortgage Interest Allocable to RMSC

Mortgage Interest for all buildings:	\$35,479
Multiplied By: (Residential Building's Square Feet / All Buildings' Square Feet)	<u>45.28%</u>
Equals Interest for the Residential Building	\$16,066
Multiplied By: (RMSC Beds / Total of RMSC and non-RMSC Beds in Residential Bldg.)	<u>64.10%</u>
Equals: Mortgage Interest Allocable to the RMSC contract	\$10,298

The total Facility Cost allocable to the RMSC program for the audit period is \$15,786 (\$5,488 for depreciation + \$10,298 for mortgage interest). However, the maximum amount allowed in the budget was \$13,444. Cache Creek already billed CDCR for \$12,293. Thus, the Contractor is due a credit of \$1,151 (\$13,444 - \$12,293).

AFTERCARE

Cache Creek charged CDCR \$2,220 for aftercare services. The Audits Branch disallowed the entire amount because Cache Creek was unable to provide supporting documents for the expenses.

NON-EXPENDABLE EQUIPMENT

Cache Creek was overpaid \$14,094 for non-expendable equipment.

The Audits Branch allowed \$7,242 for equipment rental fees. These rental fees were for equipment used for Cache Creek's Residential Program, which provides services to both RMSC and non-RMSC clients. The actual RMSC bed-days represent 65.86 percent of the total bed-days in Cache Creek's Residential Program. Therefore, the Audits Branch allocated 65.86 percent, or \$4,770 of the equipment rental fees to the RMSC program.

The Audits Branch allowed \$0 for non-expendable equipment depreciation expense, because Cache Creek was unable to provide supporting documents.

The CDCR paid Cache Creek \$18,864 for non-expendable equipment, which means Cache Creek was overpaid \$14,094 (\$18,864 paid by CDCR - \$4,770 for equipment rental fees allocable to RMSC).

OTHER OPERATING COSTS

Cache Creek undercharged CDCR \$380 for the remaining operating costs.

The adjustments made by the Audits Branch are as follows:

- a. Utilities – Cache Creek incorrectly charged \$55 of utilities expense for another building to the Residential Program.
- b. Non-Expendable Equipment – The Audits Branch added \$3,081 of computer equipment to the Residential Program. Cache Creek incorrectly reported the computer equipment costs in the non-expendable equipment line item. Since none of the computers had a unit value over \$5,000, the cost should have been reported in the expendable equipment line item.
- c. Office Supplies – Unallowable office supply costs totaling \$538. These include \$458 for purchases without receipts, and \$80 for unsupported restaurant charges.
- d. Household Supplies – Unsupported costs totaling \$260. Documents reviewed by the Audits Branch indicate that \$180 was for a DJ, and \$80 was for restaurant charges.
- e. Food – Unallowable charges for cigarettes, 28 watches, T-Shirts, and 2 staff lunches totaling \$821.

As shown in the following table, the audit adjustments were applied to the Residential Program's reported costs. The adjusted Residential Program costs were then allocated to the RMSC Contract using either capacity or actual bed-days as the basis.

(a) Overpayment Calculation

For Other Operating Costs

a	b	c	d	e	f	g
	Residential Program (Houses both RMSC and non-RMSC contracts)					
	Reported Costs	Audit Adjustmt	Adjusted Costs	Allocation to RMSC (see Footnotes * and **)	Amount Paid by CDCR	Overpayment
Operating Costs						
Communications(Postage, Job Posting, Telephone)	\$ 3,584		\$ 3,584	\$ 2,360	\$ 2,426	\$ 66
Utilities	27,328	(55) a	27,273	17,962	18,159	197
Insurance**	9,950		9,950	6,378	6,610	232
Supplies/Expendable Equipment						
<i>Furniture/Equipment</i>	7,603	3,081 b	10,684	7,036		
<i>Office Supplies</i>	2,696	(538) c	2,158	1,421		
<i>Medical Services/Supplies</i>	2,904		2,904	1,913		
<i>Training, Conference, Meeting</i>	911		911	600		
<i>Total Supplies/Expendable Equipment</i>	14,114		16,657	10,970	11,367	397
Household Supplies (Clinical Supervision, Family Program, Supplies)	21,734	(260) d	21,474	14,143	11,993	(2,150)
Food Costs (Food, Special Event)	62,950	(821) e	62,129	40,918	41,830	912
Maintenance/Repair	5,974		5,974	3,934	3,635	(299)
Travel	791		791	521	786	265
Office Expense	0		0	0	0	0
Total Operating Costs	\$146,424	\$1,407	\$147,831	\$97,186	\$96,806	(\$380)

*All costs, except insurance, were allocated based on actual bed days. $\text{RMSC actual Bed Days} \div \text{Total Cache Creek's Residential Program and RMSC bed days}$ ($7704 \div 11,698 = 65.86\%$).

**Allocation Rate is calculated based on capacity. $\text{RMSC Capacity} \div \text{Total Cache Creek's Residential Program Capacity}$ ($8,375 \div 13,065 = 64.10\%$).

CRITERIA:

(i) Facility Cost

LIBG (October 2006), page 5, Facility Lease/Rent, states: "If the Contractor owns the facility, they may be compensated for the use of buildings through depreciation and

current interest expense related to the purchase of the facility. The computation of depreciation will be based on total facility acquisition cost, less land cost.”

(ii) Aftercare and Non-Expendable Equipment

LIBG (October 2006), page 4, Operating Costs, states: “Allowable operating costs are defined as necessary program expenditures, which are based on actual costs substantiated by source documentation.”

(iii) Other Operating Costs

LIBG (October 2006), page 11, Fiscal Audit, states in part: “It is the Contractor’s responsibility to ensure that all expenditures claimed, including all subcontractor expenditure, are allowable costs associated in performing the contracted services...If expenditures are found to be unallowable, the Contractor’s/subcontractors reimbursements may be recalculated and adjusted accordingly.”

LIBG (October 2002), page 10, Unallowable Costs. This section includes a list of unallowable costs.

RECOMMENDATIONS:

1. Implement policies and procedures to ensure that unallowable costs are not charged to the RMSC contract.
2. Reimburse CDCR \$14,783 for overpaid operating expenses.

FINDING 4: Indirect Cost Overpayment

The contract’s FY 2006/07 indirect cost rate was 22 percent. However, the contractor had two Profit and Loss Report accounts showing unallowable expenses, resulting in an audited indirect cost rate of 20.62 percent.

Unallowable Indirect Cost Expenses

The Audits Branch identified two Profit and Loss Report accounts with questionable expenses, based upon the description of the account and vendor receipts. First, Account #5030, entitled “Employee Bonus”, recorded payments totaling \$2,023 for three administrative staff: Executive Director, Accountant, and Secretary. The LIBG prohibits costs associated with bonuses and/or gifts. Second, Account #6285, entitled “Special Events,” had two questionable entries. One entry was a restaurant expense entry of \$329 for Ludy’s Main Street BBQ. The other entry was for \$378 for Athletics Unlimited T-shirts with the Cache Creek logo. The contractor purchased the T-shirts for the clients and staff for Family Day. According to the LIBG, “Costs of amusements, social activities and incidental such as meals, beverages, lodgings, rentals, transportation, and gratuities are not allowable, unless such activity is specifically required as part of the project scope.” The total unallowable amount is \$2,730.

Audited Indirect Costs

The applicable indirect costs allocated to the three programs (Residential, Sober Living, and Outpatient) less the unallowable cost of \$2,730 is \$144,077 (\$146,807-\$2,730). Cache Creek could not provide the Audits Branch with the basis on how this cost was allocated because the only person with that knowledge has resigned. Therefore, the Audits Branch recalculated the indirect cost rate using the salaries and wages as a cost basis.

The indirect cost rate for the salary/wages and direct cost methods are 21.62 percent and 10.44 percent, respectively. The Audits Branch allowed the higher rate of 20.62 percent (see table below) for comparison with the contract rate of 22 percent.

Indirect Cost Rate Calculation		
RMSC Salary (see Finding 1)		138,016 (see Schedule 1)
	÷	332,039
I/C Allocation Rate	=	41.57%
		144,077
I/C Allocation Rate	x	41.57%
RMSC's Indirect Costs	=	59,893
RMSC's Indirect Costs		59,893
RMSC Direct Cost	÷	290,489 (see Schedule 1)
Actual Indirect Cost Rate	=	20.62%

The actual rate is 20.62 percent, which is 1.38 percentage points lower than the contract rate. Of the \$290,489 allowable direct costs (see Schedule 1); \$59,893 is the applicable indirect costs. Cache Creek was reimbursed \$84,966, resulting in an overpayment of \$25,073.

CRITERIA:

LIBG (October 2006), page 8, Cost Allocation Plan, states: "If the indirect cost rate is determined to be inaccurate, the indirect cost rate will be recalculated to reflect the Contractor's supportable rate."

RECOMMENDATION:

1. Reimburse CDCR \$25,073 for overpaid indirect costs.
2. Document all indirect cost allocation methods with an indirect cost allocation plan.
3. Implement policies and procedures to ensure only allowable costs are charged to the RMSC program.

Cache Creek's response: Cache Creek's response to the preliminary audit report did not include a request to include the indirect costs associated with the requested Facility Manager's salaries and fringe benefits.

Audits Branch's response: Cache Creek's response to the preliminary audit report did not include the indirect costs associated with the facility manager's salaries and benefits; however, the Audits Branch credited Cache Creek with \$6,209 for indirect costs associated with the facility director's salaries (see Finding 1) and benefits (Finding 2). The \$6,209 adjustment reduced the indirect cost overcharges to \$18,864 (25,073 previous – 6,209), as shown in Schedule 1A.

The addition of the facility manager's salaries and benefits to personnel costs increased Cache Creek's total operating costs, which increased the indirect cost rate from 20.62 percent to 21.41 percent. The table below shows the calculations for the revised indirect cost rate.

Updated Indirect Cost Rate Calculation					
RMSC Salary			152,343	(see Schedule 1A)	
TOTAL Salaries		÷	332,039		
I/C Allocation Rate		=	45.88%		
Audited Indirect Costs			144,077		
I/C Allocation Rate		x	45.88%		
RMSC's Indirect Costs		=	66,102		
RMSC's Indirect Costs			66,102	(see Schedule 1A)	
RMSC Direct Cost		÷	308,684	(see Schedule 1A)	
Actual Indirect Cost Rate		=	21.41%		

FINDING 5: Internal Control Weaknesses

The Audits Branch identified eight internal control weaknesses, as follows:

1. Monthly invoices submitted to the CDCR did not include a verified copy of the parolee participant Register of Participation Form. Contract number P05.0024 states: "Monthly invoices for parolee-participation shall be verified by the Parole Agent Liaison and forwarded to the CDCR Program Manager. All monthly invoices must include a verified copy of the Register of Participation."
2. Cache Creek does not have written procedures for accounting and procurement.
3. The breakdown of the allocated costs should be shown on vendors' invoices. The Audits Branch identified 79 invoices that Cache Creek allocated to the different programs, but the invoices did not show how the costs were allocated.

4. There is no separation of duties. The Accountant performed all the payroll preparation functions, namely: processed the payroll, printed the checks, electronically transferred payroll funds, distributed the checks to employees, and reconciled the bank statements. There is also no separation of duties for purchasing and receiving of supplies/equipment, and disbursing and custody of the petty cash account. The previous Accountant performed almost all the accounting functions with one exception: she was not authorized to sign checks.
5. Cache Creek allowed the pre-signing of blank checks. The Executive Director was the only person authorized to sign checks. If the Executive Director anticipates being absent for a long period, i.e., vacation, he pre-signed blank checks to be used in his absence. The pre-signed checks are locked in the safe until needed.
6. There is no separate account for the RMSC program. There is one account for the 39-bed residential program, which included 25 RMSC beds.
7. Contract number P05.0025 did not include the number of RMSC bed days.
8. The Contract Budget, Exhibits B2 – B5, needs an additional column to specify the total salaries paid for each position.

CRITERIA:

Contract number P05.0025, page 17, Administrative Requirement, Section B, Fiscal Responsibilities, states: "The Contractor's Facility Manager is responsible for preparing and administering an accounting manual, which maintains adequate fiscal records to determine allowable and applicable program costs in accordance with Generally Accepted Accounting Principles."

Contract number P05.0025, page 19, Section H, Invoicing Process, states: "Monthly invoices for parolee-participation shall be verified by the Parole Agent Liaison and forwarded to the CDCR Program Manager. All monthly invoices must include a verified copy of the Register of Participation Form for parolee-participants."

Government Code, Section 13403, states that the elements of a satisfactory system of internal accounting and administrative controls shall include, but are not limited to:

1. A plan of organization that provides segregation of duties appropriate for proper safeguarding of assets.
2. A plan that limits access to assets to authorized personnel who require these assets in the performance of their assigned duties.
3. A system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues, and expenditures.

4. An established system of practices to be followed in performance of duties and functions.
5. Personnel of quality commensurate with their responsibilities.
6. An effective system of internal review.

RECOMMENDATION:

1. Implement policies and procedures to ensure that contract and LIBG requirements are followed.
2. Address the internal control weaknesses identified by the Audits Branch.

CACHE CREEK LODGE, INC.
CONTRACT #P05.0025

COMPUTATION OF ALLOCATED COSTS
FOR JULY 2006 - MAY 2007
SCHEDULE 1
(1 of 2)

a Line Items	b Contract Budget	c Residential Program (Houses both RMSC and non-RMSC contracts)			f Allocation to RMSC	g Amount Paid by CDCR	h Overpayment
		Reported Costs	Audit Adjustments	Adjusted Costs			
					f = e x 65.86%* or 64.10%**		
A. PERSONNEL							
Facility Manager	26,460	4,583	(2,292) m	2,292	2,292	18,786	16,494
Counseling Supvisor.	33,993	40,475	(2,932) n	37,543	24,065	31,156	7,091
Counselors	54,298	63,927	(2,955) o	60,972	39,083	49,772	10,689
Monitors	47,695	52,646	(250) p	52,396	33,587	43,951	10,364
Cook	15,687	22,582	(5,257) q	17,325	11,105	14,377	3,272
Temporary Help	38,694	50,544	(7,043) r	43,501	27,884	35,922	8,038
Budget Fillers		19,075	(19,075) s	0	0		0
Other RMSC Employees		14,598	(14,598) t	0	0		0
Unsupported Entries		12,058	(12,058) y	0	0		0
Total Staff Salaries**	216,827	280,489	(66,460)	214,029	138,016	193,964	55,948
Total Staff Benefits @ 32%	69,828	73,077	(15,241) z	57,836	37,073	62,069	24,996
Actual Staff Benefits (28% of Actual Salary)				0			
TOTAL PERSONNEL COSTS	286,655	353,566	(81,701) 0	271,865	175,089	256,033	80,944
B. SUB-CONTRACTORS COSTS	0	0			0	0	0
C. OPERATING COSTS							
							Contract Budget less Amount Paid
Facility Lease/Rent: Building Depreciation **		0	8,561 i	8,561	5,488		
Mortgage Interest**		18,511	(2,445) j	16,066	10,298		
Total Facility Lease/Rent	13,444	18,511	6,116	24,627	15,786	12,293	(1,151)
Aftercare Services							
	2,828	0	0	0	0	2,220	2,220
Non-Expendable Equipment				0	0		
Depreciation		21,175	(21,175) l	0	0		
Equipment Rent		7,242	0	7,242	4,770		
Total Non-Expendable Equipment.	20,780	28,417	(21,175)	7,242	4,770	18,864	14,094
All Other Operating Costs							
Communications(Postage, Job Posting,Telephone)	2,789	3,584		3,584	2,360	2,426	66
Utilities	20,352	27,328	(55) u	27,273	17,962	18,159	197
Insurance**	7,215	9,950		9,950	6,378	6,610	232
Supplies/Expendable Equipment				0			
Purchase Furniture/Equipment		7,603	3,081 k	10,684	7,036		
Office Supplies		2,696	(538) v	2,158	1,421		
Medical Services/Supplies		2,904		2,904	1,913		
Training, Conference, Meeting		911	0	911	600		
Total Supplies/Expendable Equipment	12,536	14,114	2,543	16,657	10,970	11,367	397
Household Supplies (Clinical Supervision,Family Pro	14,032	21,734	(260) w	21,474	14,143	11,993	(2,150)
Food Costs (Food, Special Event)	46,061	62,950	(821) x	62,129	40,918	41,830	912
Maintenance/Repair	4,044	5,974		5,974	3,934	3,635	(299)
Travel	1,303	791		791	521	786	265
Office Expense	0	0		0	0	0	0
Subtotal Other Operating Costs	108,332	146,424	1,407	147,831	97,186	96,806	(380)
TOTAL OPERATING COSTS							
	145,384	193,352	(13,652)	179,700	117,742	130,183	14,783
SUBTOTAL (A+B+C)	432,039	546,918	(95,353)	451,565	292,831	386,216	95,727
Total Indirect Cost @ 22% of Subtotal**	95,049				59,893	84,966	25,073
Profit or Service Fee @ 5% of Subtotal	0				0	0	0
TOTAL	527,088	546,918	(95,353)	451,565	352,724	471,182	120,800

CACHE CREEK LODGE, INC.
CONTRACT #P05.0025

COMPUTATION OF ALLOCATED COSTS
FOR JULY 2006 - MAY 2007
SCHEDULE 1
(2 of 2)

Footnotes:

- a. Column = Line Items
 - b. Column = FY 06/07 Budgeted Amount submitted to CDCR including BTR's.
 - c. Column = Actual Cost for the Residential Program, according to Cache Creek's Profit and Loss Report.
 - d. Column = Audit Adjustments.
 - e. Column = Residential Program Costs, after audit adjustments
 - f. Column = Amount allocable to the RMSC Contract. Residential Program Adjusted Costs (col. e) were allocated using various allocation methods
Please see Footnotes * and **.
 - g. Column = Amount Paid by CDCR
 - h. Column= Amount of Overpayment or (underpayment)
 - i. Building depreciation allocated based on square footage ($\$18,907 \times 45.28\% = \$8,561$).
 - j. Mortgage interest allocated based on square footage ($\$35,479 \times 45.28\% = \$16,066$).
 - k. Computer equipment allocated based on revenues ($\$4,870 \times 63.26\% = \$3,081$).
 - l. Depreciation in the P&L of \$21,175 included building, equipment, furniture, etc. that cannot be supported.
 - m. The Facility Manager's salaries from 09/06 through 03/07 were disallowed for missing documentation, and not allocating half of the allowable salaries to other programs, see Finding 1.
 - n - s. Disallowed salaries that exceeded the maximum allowable; Christmas Bonus, an unallowable cost per contract agreement; and overtime pay, a non-line item budget. See Finding 1.
 - t. Disallowed the Other RMSC Employees' salaries because they were not in the payroll for the period. See Finding 1.
 - u. Utility costs charged to the wrong account. See Finding 3.
 - v. Unsupported charges for Home Solutions (\$295) and Dell Computers (\$163). Disallowed Westcare admin lunch (\$80). See Finding 3.
 - w. Unsupported charges: \$180 DJ costs and \$80 Ludy's Main St. BBQ. See Finding 3.
 - x. Disallowed cigarettes(\$36), watches (\$220), Special Event T-shirts (\$378), and staff lunch (\$187 Ludy's Main St BBQ). See Finding 3.
 - y. Disallowed the Unsupported Entries because it did not satisfy the contract requirement regarding support for costs. See Finding 1.
 - z. Disallowance of fringe benefits costs was due to costs were for RMSC previous employees and supported costs. See Finding 2.
- *. All costs, except for salaries, rent, and insurance, were allocated based on actual bed days.
 $\text{RMSC actual Bed Days} \div \text{Total Cache Creek's Residential Program and RMSC bed days} (7704 \div 11,698 = 65.86\%)$
- **. Allocation Rate was calculated based on capacity. $\text{RMSC Capacity} \div \text{Total Cache Creek's Residential Program Capacity} (8,375 \div 13,065 = 64.10\%)$.

CACHE CREEK LODGE, INC.								
CONTRACT #P05.0025								
ADJUSTED COMPUTATION OF ALLOCATED COSTS								
FOR JULY 2006 - MAY 2007								
SCHEDULE 1A								
a	b	c	d	e	f	g	h	
Line Items	Contract Budget	Residential Program (Houses both RMSC and non-RMSC contracts)			Allocation to RMSC	Amount Paid by CDCR	Overpayment	
		Reported Costs	Audit Adjustments	Adjusted Costs				
A. PERSONNEL				g=c+d	f= e x 65.86% or 64.10%**			
Facility Manager	26,460	33,238 a	(16,619) b	16,619	16,619 b	18,786	2,167	
Counseling Supervisor	33,993	40,475	(2,932)	37,543	24,065	31,156	7,091	
Counselors	54,298	63,927	(2,955)	60,972	39,083	49,772	10,689	
Monitors	47,695	52,646	(250)	52,396	33,587	43,951	10,364	
Cook	15,687	22,582	(5,257)	17,325	11,105	14,377	3,272	
Temporary Help	38,694	50,544	(7,043)	43,501	27,884	35,922	8,038	
Budget Fillers		19,075	(19,075)	0	0		0	
Other RMSC Employees		14,598	(14,598)	0	0		0	
Unsupported Entries		12,058	(12,058)	0	0		0	
Total Staff Salaries**	216,827	309,144	(80,787)	228,356	152,343	193,964	41,621	
Total Staff Benefits @ 32%	69,828	76,945	(16,630)	60,315	40,941 c	62,069	21,128	
Actual Staff Benefits (26% of Actual Salary)				0				
TOTAL PERSONNEL COSTS	286,655	386,089	(97,417)	288,671	193,284	256,033	62,749	
B. SUB-CONTRACTORS COSTS	0	0			0	0	0	
C. OPERATING COSTS								
Facility Lease/Rent: Building Depreciation **		0	8,561	8,561	5,488			Contract Budget less Amount Paid
Mortgage Interest**		18,511	(2,445)	16,066	10,298			
Total Facility Lease/Rent	13,444 f	18,511	6,116	24,627	15,786 e	12,293	(1,151)	
Aftercare Services	2,828	0	0	0	0	2,220	2,220	
Non-Expendable Equipment				0	0			
Depreciation		21,175	(21,175)	0	0			
Equipment Rent		7,242	0	7,242	4,770			
Total Non-Expendable Equipment	20,780	28,417	(21,175)	7,242	4,770	18,864	14,094	
All Other Operating Costs								
Communications(Postage, Job Posting,Telephone)	2,789	3,584		3,584	2,360	2,426	66	
Utilities	20,352	27,328	(55)	27,273	17,962	18,159	197	
Insurance**	7,215	9,950		9,950	6,378	6,610	232	
Supplies/Expendable Equipment				0				
Purchase Furniture/Equipment		7,603	3,081	10,684	7,036			
Office Supplies		2,696	(538)	2,158	1,421			
Medical Services/Supplies		2,904		2,904	1,913			
Training, Conference, Meeting		911	0	911	600			
Total Supplies/Expendable Equipment	12,536	14,114	2,543	16,657	10,970	11,367	397	
Household Supplies (Clinical Supervision,Family Program,Sup	14,032	21,734	(260)	21,474	14,143	11,993	(2,150)	
Food Costs (Food, Special Event)	46,061	62,950	(821)	62,129	40,918	41,830	912	
Maintenance/Repair	4,044	5,974		5,974	3,934	3,635	(299)	
Travel	1,303	791		791	521	786	265	
Office Expense	0	0		0	0	0	0	
Subtotal Other Operating Costs	108,332	146,424	1,407	147,831	97,186	96,806	(380)	
TOTAL OPERATING COSTS	145,384	193,352	(13,652)	179,700	117,742	130,183	14,783	
SUBTOTAL (A+B+C)	432,039	579,441	(111,069)	468,371	311,026	386,216	77,532	
Total Indirect Cost @ 22% of Subtotal**	95,049				66,102 d	84,966	18,864	
Profit or Service Fee @ 5% of Subtotal	0				0	0	0	
TOTAL	527,088	579,441	(111,069)	468,371	377,128	471,182	96,396	
Adjustments:								
a. The reported salaries for the Facility Manager's prior to the release of the Preliminary Audit Report was \$4,583.34. Cache Creek's response to the Preliminary Audit Report included information that increased the reported salaries of the Facility Manager by \$28,655.03 for a total of \$33,238.37.								
b. Per contract agreement, only 50% of the Facility Manager's total salary is chargeable to the RMSC program. Therefore, of the \$33,238 actual salary, only \$16,619 is allowable and the other \$16,619 is unallowable, therefore, has to be deducted from the actual salary.								
c. The staff benefits was adjusted to account for the fringe benefits related to the Facility Manager's additional salaries in Finding 1.								
d. As affected by the Facility Manager's change in reported salaries (a), the indirect cost was also changed from \$59,893 to \$66,102 reducing the indirect cost overpayment from \$25,073 to \$18,864. The indirect cost of \$66,102 was obtained by subtracting \$13,444 (f), the amount budgeted for Facility Lease/Rent, from \$15,786 (e), the total Facility Lease/Rent allocated to RMSC. The difference is \$2,342, the amount exceeds the budgeted amount; therefore, has to be subtracted from \$311,026 before it is multiplied by the indirect cost rate of 21.41%. The calculations are as follow s: 311,026 - 2,342 = 308,684; 308,684 x 21.41% = 66,102.								

GLOSSARY

Cache Creek	Cache Creek Lodge, Inc.
CDCR	California Department of Corrections and Rehabilitation
FY	Fiscal Year
LIBG	Line Item Budget Guide
RMSC	Residential Multi-Service Center